Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Office of the Superintendent of Financial Institutions

2012-2013 Estimates

Part III – Report on Plans and Priorities

Minister of Finance

OSFI
BSIF

Canada

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Message from the Superintendent

On July 2nd this calendar year, the Office of the Superintendent of Financial Institutions (OSFI) will mark its 25th anniversary. OSFI is tasked with overseeing the solvency of federally regulated financial institutions in the interest of depositors and policyholders, and protecting members in federal private pension plans. This report highlights the areas where OSFI will focus its efforts during the 2012-2013 fiscal year.

With the global economy continuing to be subject to considerable uncertainty, the coming year will continue to present challenges to the financial institutions and pension plans subject to our oversight. OSFI will be focusing on anticipating and addressing risks resulting from global events and also from regulatory changes. We will also be creating higher standards for effective risk management, disclosure and governance. We will be paying particular attention to the effects of implementation of international accounting rule changes and of Basel III capital adequacy and liquidity requirements. In addition, OSFI will continue to work on reform of the capital framework for insurance companies.

During the year OSFI will undergo, as well as start preparing for, a number of external reviews. The Financial Stability Board and the Basel Committee on Banking Supervision have begun a number of peer reviews which will test whether countries are implementing standards and policies which have been agreed internationally. This helps ensure a level playing field and brings a new level of commitment and transparency to the global financial system. Preparations will also begin for a 2013 assessment of Canada by the International Monetary Fund (IMF) under its Financial Stability Assessment Program. This is a major undertaking, and as part of this effort OSFI's adherence to international core principles in banking and insurance supervision will be assessed. Along with the Bank of Canada, the process will also involve completing appropriate stress tests and submitting them to the IMF.

OSFI is not alone in ensuring that Canada has a safe and sound financial system. Strong cooperation, communication and action among federal partners such as the Bank of Canada, the Canada Deposit Insurance Corporation, the Financial Consumer Agency of Canada and the Department of Finance – are key. We continue to work together at the Financial Institutions Supervisory Committee and at the Senior Advisory Committee.

It is important that OSFI has the right people and right tools to continue to be effective in the face of transformational rule changes and new risks that may arise. Our plan includes a focus on Human Resources strategies, as well as continuing our renewal of information management and technological infrastructure. Both will provide support to our employees and help us continue to attract the talent we need to meet the important mandate we have.

Section I: Agency Overview

Raison d'être

The Office of the Superintendent of Financial Institutions (OSFI) supervises and regulates all federally incorporated or registered deposit-taking institutions (e.g., banks), life insurance companies, property and casualty insurance companies, and federally regulated private pension plans.

OSFI safeguards depositors, policyholders and private pension plan members by enhancing the safety and soundness of federally regulated financial institutions and private pension plans.

The Office of the Chief Actuary (OCA) is a separate unit within OSFI and provides expert actuarial services and advice on the state of various public pension plans and on the financial implications of options being considered by policy makers. In conducting its work, the OCA plays a vital and independent role towards a financially sound and sustainable Canadian public retirement income system.

Responsibilities

OSFI's legislated mandate was implemented in 1996 and under the legislation, OSFI's mandate is to:

- Supervise federally regulated financial institutions and private pension plans to determine whether they are in sound financial condition and meeting minimum plan funding requirements, respectively, and are complying with their governing law and supervisory requirements;
- Promptly advise institutions and plans in the event there are material deficiencies and take, or require management, boards or plan administrators to take, necessary corrective measures expeditiously;
- Advance and administer a regulatory framework that promotes the adoption of policies and procedures designed to control and manage risk; and
- Monitor and evaluate system-wide or sectoral issues that may impact institutions negatively.

OSFI's prudential mandate supports a safe and sound Canadian financial system.

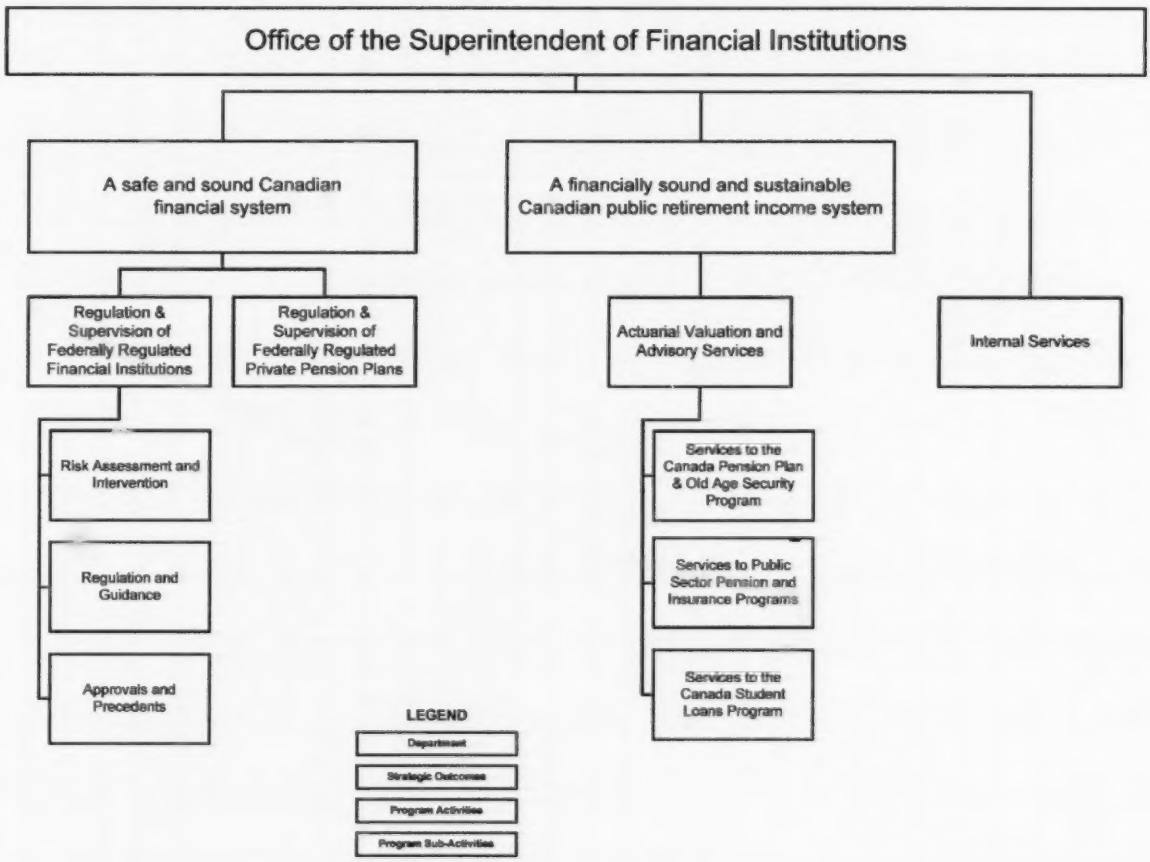
OSFI's legislation also acknowledges the need to allow institutions to compete effectively and take reasonable risks. It recognizes that management, boards of directors, and plan administrators are ultimately responsible and that financial institutions and pension plans can fail.

Strategic Outcomes and Program Activity Architecture (PAA)

Primary to OSFI's mandate and central to its contribution to Canada's financial system are two strategic outcomes:

1. A safe and sound Canadian financial system.
2. A financially sound and sustainable Canadian public retirement income system.

The diagram below illustrates OSFI's framework of program activities and program sub-activities, which roll-up and contribute to progress toward the Strategic Outcomes.


Office of the Superintendent of Financial Institutions
A safe and sound Canadian financial system
A financially sound and sustainable Canadian public retirement income system
Regulation & Supervision of Federally Regulated Financial Institutions
Regulation & Supervision of Federally Regulated Private Pension Plans
Actuarial Valuation and Advisory Services
Internal Services
Risk Assessment and Intervention
Regulation and Guidance
Approvals and Precedents
Services to the Canada Pension Plan & Old Age Security Program
Services to Public Sector Pension and Insurance Programs
Services to the Canada Student Loans Program
LEGEND
Department
Strategic Outcomes
Program Activities
Program Sub-Activities

Planning Summary

Financial Resources ($ millions)

2012-2013	2013-2014	2014-2015
127.7	130.2	134.5

The financial resources table above provides a summary of the total planned spending for OSFI for the next three fiscal years.[1]

Human Resources (Full-time Equivalent – FTE)

2012-2013	2013-2014	2014-2015
609	608	608

The human resources table above provides a summary of the total planned full-time equivalent resources for OSFI for the next three fiscal years.

Strategic Outcome (SO) One: A safe and sound Canadian financial system.						
Performance Indicators % of knowledgeable observers[2] that rate OSFI as somewhat or very effective in monitoring and supervising their institution or pension plan.						Targets 70%
Percentage of estimated recoveries on failed institutions (amount recovered per dollar of claim).						90%
Percentage of estimated recoveries on pension plans that have terminated under-funded.						85%
Program Activity	**Expected Results**	**Forecast Spending ($ millions)** 2011-2012	**Planned Spending ($ millions)** 2012-2013	2013-2014	2014-2015	**Alignment to Gov't of Canada Outcomes**
Regulation and Supervision of Federally Regulated Financial Institutions	Protect depositors and policy holders while recognizing that all failures cannot be prevented.	62.4	65.9	68.1	70.9	• Strong economic growth
Regulation and Supervision of Federally Regulated Private Pension Plans	Protect the financial interests of federally regulated private pension plan members and beneficiaries.	5.6	4.5	4.6	4.8	• Income security for Canadians
Total for SO One		**68.0**	**70.4**	**72.7**	**75.7**	

[1] Additional information regarding the Financial and Human Resources trends can be found in the Expenditure Profile section of this report (page 11).

[2] Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

Strategic Outcome (SO) Two: A financially sound and sustainable Canadian public retirement income system.

Performance Indicators	Targets
Panel of Canadian peer actuaries selected by an international and independent body attests that the Chief Actuary and staff have adequate professional experience, complete work in compliance with professional standards and statutory requirements, access adequate information and complete relevant data tests and analysis, use reasonable methods and assumptions in completing actuarial reports and that these reports fairly communicate the results of the work performed.	Unanimous agreement amongst peers
Adequacy of professional experience of the Chief Actuary and staff. AND Compliance with Canadian and international professional standards.	Unanimous agreement amongst peers Unanimous agreement amongst peers

Program Activity	Expected Results	Forecast Spending ($ millions)	Planned Spending ($ millions)			Alignment to Gov't of Canada Outcomes
		2011-2012	2012-2013	2013-2014	2014-2015	
Actuarial Valuation and Advisory Services	Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice.	4.3	4.6	4.9	5.1	• Income security for Canadians
Total for SO Two		**4.3**	**4.6**	**4.9**	**5.1**	

Internal Services: Supports both Strategic Outcome

Program Activity	Forecast Spending ($ millions)	Planned Spending ($ millions)		
	2011-2012	2012-2013	2013-2014	2014-2015
Internal Services	52.5	52.7	52.6	53.7
Total for Internal Services	**52.5**	**52.7**	**52.6**	**53.7**

Contribution of Priorities to Strategic Outcomes

All Organizational Priorities link to both of OSFI's Strategic Outcomes.

Organizational Priorities	Type	Description
Risks Emanating from the Economy	Ongoing	*Effectively monitor and manage our response to risks in the increasingly complex and dynamic regulatory and financial environments, while the volume and pace of change are increasing, through continuing to:* 1. Proactively and strategically advocate for OSFI's regulatory approaches through participation in policy discussions at international fora and working with domestic partners and industry stakeholders on similar issues in the Canadian context. 2. Identify, monitor and report internally on emerging risks, including system-wide risks that may have a material impact on Federally Regulated Financial Institutions (FRFIs) and Private Pension Plans. 3. Develop and promote improved risk management practices, disclosure practices, risk data aggregation and strong corporate governance standards for FRFIs (and where relevant for Pension Plans). 4. Participate and achieve strong results in the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP), as well as ongoing peer reviews by the Financial Stability Board and the Basel Committee on Banking Supervision.
Risks Emanating from Regulatory Reform	Ongoing	*Proactively and strategically address risks arising as a result of the regulatory changes being introduced (including unintended consequences arising from such changes) through a consultative process with industry:* **Banking Reforms:** 1. Determine the impacts of the fundamental redesign of global banking regulation on our regulatory framework, including capital levels, and make domestic adjustments as required. 2. In response to the Basel III framework, develop new rules, guidelines and disclosure, revise the definition of capital and develop a common reporting framework for Canadian banks. 3. Play a leading role in the collaborative establishment of a credible resolution framework for major banks in Canada. **Insurance Reforms:** 1. Enhance the supervisory regime for insurance companies by implementing the new Supervisory Framework and revising domestic regulatory capital and other regulatory requirements and disclosures. **Pensions Reforms:** 1. Adjust the monitoring of risks and other supervisory, regulatory and approval processes for pension plans to address pensions related legislative and regulatory changes. **International Accounting and Auditing Reforms:** 1. Continue to participate in discussions with international and domestic standard setters to represent OSFI's views and influence the development of final accounting and auditing standards (e.g. Insurance Contracts Phase II and replacement of International Accounting Standards (IAS) 39 *Financial Instruments*). 2. Review impacts of changes to IFRSs and International Auditing Standards and assess implications for FRFIs and for OSFI's oversight of FRFIs.
A High-Performing and Effective	Ongoing	*Actively develop and prepare current and future OSFI employees and create business processes for continued success in the environment in which they will be required to operate, thereby ensuring that OSFI has people with the right*

Workforce		*skills, motivation and tools at the right time and in the right place to deliver our business goals:* 1. Implement two key frameworks: Managing Compensation and Human Resources (HR) Management. 2. Implement the HR Plan as committed and monitor and report internally on progress to plan and related risks.
An Enhanced Corporate Infrastructure	Ongoing	*Apply innovative and influential strategies to enhance internal systems, processes, and knowledge transfer, which will sharpen our focus on how to work more effectively and efficiently.* 1. Improve the sustainability of effective corporate services by implementing key process documentation and internal controls in a risk-management approach. 2. Continue to champion the Information Technology Renewal (ITR) program to achieve targeted milestones. Develop an enterprise information and FRFI data management strategy and framework, as per sound Enterprise Information Management (EIM) principles, to ensure OSFI effectively captures and shares information.

Risk Analysis

OSFI operates in a constantly changing environment reflected in uncertain economic and financial conditions and an industry that can undergo periods of rapid change and is becoming increasingly complex. OSFI's ability to achieve its mandate and objectives is impacted by the range of risks that exist in such circumstances. OSFI is challenged to effectively and efficiently identify, evaluate, prioritize and develop initiatives to address areas where exposure is greatest.

OSFI's Enterprise-wide Risk Management (ERM) framework divides risks into external and internal categories. The external risk category consists of economic and financial conditions, the financial industry environment, OSFI's legal environment and catastrophic events. External risks arise from events that OSFI cannot influence, but are monitored in order to mitigate their potential impact on OSFI's operations. The internal risk category consists of operational risks that are broadly categorized as people, processes (governance processes, internal processes, and relationship management processes), enabling supporting systems, and culture (core values and change management).

OSFI's ERM process has identified several key risks to the achievement of its mandate and objectives, as follows:

External Risks

Economic, Industry and Regulatory Environment
The economic outlook for major foreign economies and for Canada is of concern, with a reasonably high probability that the U.S. recovery will continue to be weak, and some observers expecting a mild recession in Europe in 2012. More generally, there is considerable uncertainty associated with the resolution of the European sovereign debt problems, which could potentially generate additional stress in global and Canadian financial markets and undermine the performance of the global and Canadian economies.

The Canadian economy is also less robust and less resilient to adverse shocks compared to the last recession. Elevated household debt levels not only make households vulnerable to adverse shocks but continued low interest rates could encourage even higher household indebtedness for a period of time. Also, consumers themselves could become a source of negative domestic influence if they take action to rein in spending to address their indebtedness.

Global and domestic financial events require that OSFI be in a position to respond effectively to a continually evolving economic and regulatory environment. On a micro-level, prevailing conditions continue to put pressure on OSFI staff to provide interpretations or to reassess existing guidance to ensure its effectiveness under stressful and evolving conditions. Specific strategies have been put in place within individual Divisions, consistent with specialized responsibilities and current projects, to address ongoing industry developments. Resources continue to be reassigned and priorities realigned as necessary.

Capital Adequacy, Leverage and Liquidity
A fundamental redesign of the Basel capital framework for banks and the need to update prudential regulatory frameworks to address continued disruptions in global financial markets also require banks and regulators to focus more on the measurement of risks and its relation to the overall level of capital adequacy, leverage and liquidity. OSFI expects that the review, consultation and implementation of these changes will require more resources by both financial institutions and OSFI to address the number, breadth and novelty of more international rules and the need to monitor and advocate for comparable and timely implementation in peer jurisdictions. It is expected that policies creating OSFI's current prudential framework will have to be updated to incorporate new issues, information and lessons learned from the times of stress and the new internationally required minimum prudential standards. Monitoring the impact of new standards on bank behaviour will become equally important.

Work is underway in Canada as well as in many countries and international fora to develop more risk-sensitive capital frameworks for insurance companies (Minimum Continuing Capital and Surplus Requirement (MCCSR) and the Minimum Capital Test (MCT)). Both companies and regulators recognize the need to have more risk sensitive approaches that better reflect the issues arising from increasingly complex products, dynamic markets, accounting changes, and the need to be more transparent regarding the level of policyholder protection.

Changes to International Financial Reporting Standards (IFRSs) and Auditing Standards
As Canadian financial institutions moved to IFRS in 2011, OSFI is now focused on new projects by the International Accounting Standards Board (IASB) that will have a significant impact on FRFIs going into the next two to three years.

There are two key projects that will impact banks and insurers: replacement of Financial Instruments and Insurance Contracts Phase II. The Financial Instruments project proposes increased use of fair value and expected loss provisioning for loans. The Insurance Contracts Phase II project proposes to fundamentally change the valuation of insurance liabilities and recognition of revenue. The impacts of the changes for these projects are extensive in that they will not only change the accounting, but will also significantly impact loan values and provisions, actuarial standards, and the regulatory capital regime. It is crucial that OSFI continues to anticipate, understand and, when practicable, influence such changes so that OSFI will continue to be able to perform accurate risk assessments of financial institutions and will be able to adjust the regulatory capital framework as required.

The 2008 financial crisis has motivated much international and domestic consultation and proposals on how the audit function could be enhanced in order to contribute to increased financial stability. OSFI is actively monitoring and participating in domestic and international work efforts (internationally through the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), and the International Association of Insurance Supervisors (IAIS) and domestically through the Auditing and Assurance Standards Board (AASB) and Auditing and Assurance Standards Oversight Council (AASOC)).

Internal Risks

People Risks
OSFI's success is dependent upon having employees with highly specialized knowledge, skills and experience to regulate and supervise financial institutions, identify significant issues, and perform accurate risk assessments. OSFI is also being called on to take an increasing leadership role domestically and internationally and to devote resources to further improving financial regulation and considering systemic issues.

A volatile global economy, increasingly complex products, changes to prudential regulation and emerging risks in the industry also mean that OSFI needs to be able to attract, motivate, develop and retain skilled people, particularly those whose skills are in demand in the financial sector. In addition, a significant increase in hiring over the last three years due to market conditions, and normal turnover and retirement rates mean that a continuous learning environment is necessary to enable employees to meet the challenges of this constantly changing environment. Not having sufficient skill sets in place can result in an over reliance on certain key resources, which can lead to other people risks.

Systems Risks
Enabling technology and a robust, secure and well-supported Information Management/Information Technology (IM/IT) infrastructure are key success factors to OSFI in meeting its mandate. OSFI must ensure that the necessary information systems and infrastructure are in place to effectively support its supervisory and regulatory activities. OSFI has undertaken a multi-year information technology renewal initiative (ITR) in support of a long term IM/IT Strategy to mitigate this risk. Implementation issues related to this initiative are being closely monitored and evaluated.

Expenditure Profile

In accordance with the Treasury Board Secretariat's *Guide to the Preparation of Part III of the 2012-2013 Estimates*, the financial and human resources presented in this Report on Plans and Priorities reflect OSFI's approved Annual Reference Level Update (ARLU) estimates, which were prepared in early summer 2011. At the time of writing this Report on Plans and Priorities (RPP), OSFI was completing its business planning process for fiscal years 2012-2013 to 2014-2015 and assessing its capacity requirements. Any changes to OSFI's approved ARLU estimates as a result will be reflected in next year's RPP.

During the 2012-2015 planning period, OSFI will continue to focus on responding to risks emanating from the economy and from regulatory reforms, primarily in banking, insurance, and accounting (IFRS). Work continues on determining the impacts of the fundamental redesign of global banking regulations on the capital and liquidity of Canada's banks, on making changes to insurance company capital rules, and on reviewing the impacts of expected accounting rule changes and auditing reforms.

OSFI is currently in year two of the implementation of its approved five-year IM/IT Strategy. The focus for this planning period is to advance the ITR initiative with the updating of OSFI's ageing technologies and annual investments to upgrade systems and renew core infrastructure and selected applications. Accordingly, small increases to the resource levels presented in these tables are necessary, primarily in the Regulation and Supervision of Federally Regulated Financial Institutions program activity where expertise in technical skills are required to address the issues outlined above.

($ millions except for percentages)	**Actual Spending**	**Forecast Spending**	**Planned Spending**		
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Gross Expenditures	105.9	124.8	$127.7	$130.2	$134.5
Change from previous year		*17.8 %*	*2.3 %*	*2.0 %*	*3.3 %*
Less:					
Respendable Revenue	90.1	123.9	126.8	129.3	133.6
Total Planned Spending	**15.8**	**0.9**	**0.9**	**0.9**	**0.9**

Total gross expenditures in 2011-2012 are forecasted to increase by 17.8% from the previous year, to $124.8 million, due to the increase in human resources and the full-year impact in 2011-2012 of employees hired during 2010-2011 (which in combination, result in a growth of 30 full-time equivalent positions), normal inflation and merit adjustments, investments in the ITR project, and the retrofit of new and existing office space to accommodate the additional staff. In order to successfully retain and attract necessary talent, OSFI also updated its executive[3] compensation structure to keep pace with compensation paid in the financial services sector, from which OSFI recruits the experience and knowledge required to keep current.

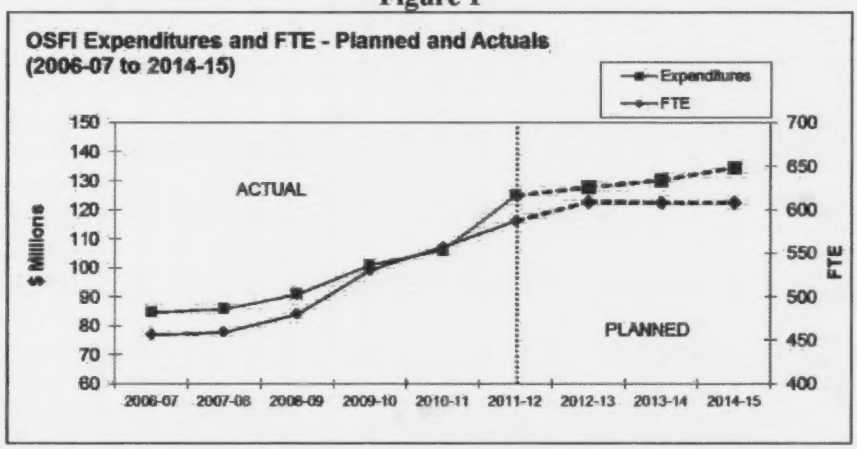
[3] Director, Managing Director and Senior Director levels.

Total gross expenditures in 2012-2013 are planned to increase by 2.3% over 2011-2012 forecast, to $127.7 million, mainly due to normal inflationary and merit adjustments and continued investments in the ITR project. The growth in 2013-2014 and 2014-15 is due to normal inflationary and merit adjustments.

Net of Respendable Revenues, total planned spending is $0.9 million for each of the planning years. This amount is assumed to remain unchanged over the planning horizon but may be adjusted by Treasury Board to reflect changes in collective agreements or continued cost constraint measures.

Figure 1 provides a trend of OSFI's actual and planned expenditures and full-time equivalents (FTEs) over the fiscal years 2006-2007 to 2014-2015. The growth in FTEs starting in late 2007-2008 through to 2009-2010 was driven by the global financial market turmoil, which began in August 2007, and the serious economic downturn in the following year while financial market turmoil still prevailed. During this period, OSFI added staff in specialized areas in order to more intensely monitor and assess risk in the financial sector. OSFI further increased its staff complement in 2011 to address the increased volume and complexity of its work, new initiatives as a result of the lessons learned from the global financial crisis, and to implement the significant regulatory reforms and implement OSFI's approved ITR program. Driven by a fundamental change in how OSFI supervises insurance companies, OSFI also expects to increase its staff complement slightly in 2013 to ensure adequate resources related to the regulation and supervision of the insurance industries. OSFI's level of resources today is higher than pre-crisis levels as many of the new initiatives and commitments have become permanent demands. At the time of writing this Report on Plans and Priorities, current budget assumptions are that FTE estimates will hold constant beyond 2012-2013.

Figure 1



OSFI continues to manage its human and financial resources judiciously and in optimal ways. Recent steps taken to maximize efficiencies include remaining within OSFI's pre-2008 Toronto office footprint despite increases in supervisory resources since the financial crisis, indefinitely suspending OSFI's biennial employee training and development conference, and actively participating in and supporting the shared financial systems initiative for Small Departments and Agencies.

Estimates by Vote

Estimates by Vote are presented in the 2012-2013 Main Estimates which can be found on the Treasury Board of Canada Secretariat's web site at:

http://www.tbs-sct.gc.ca/est-pre/20122013/me-bpd/info/info-eng.asp.

Section II: Analysis of Program Activities by Strategic Outcome

The following section describes OSFI's program activities and identifies the expected results, performance indicators and targets for each of them. This section also explains how OSFI plans on meeting the expected results and presents the financial and non-financial resources that will be dedicated to each program activity.

Strategic Outcome One: A safe and sound Canadian financial system.

Program Activity: Regulation and Supervision of Federally Regulated Financial Institutions

Human Resources (FTEs) and Planned Spending ($ millions)

2012-2013		2013-2014		2014-2015	
FTEs	**Planned Spending**	**FTEs**	**Planned Spending**	**FTEs**	**Planned Spending**
376	65.9	376	68.1	376	70.9

Program Activity Expected Results	Performance Indicators	Targets
Protect depositors and policy holders while recognizing that all failures cannot be prevented.	Percentage of estimated recoveries on failed institutions. (amount recovered per dollar of claim)	90%
Provide accurate Risk Assessments for institutions which align with their Composite Risk Rating.	Percentage of knowledgeable observers[4] that agree that their institution's Composite Risk Rating is appropriate.	70%
Timely and effective intervention and feedback.	Time to issue Supervisory Letter (within prescribed target days).	80% of letters are issued within 45 days
Regulations, guidance and other rules that balance prudential considerations and the need to compete.	Percentage of knowledgeable observers[3] that rate OSFI as being good or very good at developing Regulations, Guidelines and other rules that strike an appropriate balance between prudential considerations and the need for institutions to compete.	50%
Regulations, guidance and other rules which are clear and scrutinized by industry.	Percentage of knowledgeable observers[3] that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. AND Percentage of knowledgeable observers[3] who rate OSFI as good or very good at consulting with industry on the development of regulations, guidelines and other rules.	75% 60%

[4] Senior Executives and professionals who act on behalf of federally regulated financial institutions.

Provide prudentially sound decisions on Regulatory Approvals.	Percentage of knowledgeable observers[3] that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process.	85%
Regulatory approvals that are timely and transparent.	Percentage of completed applications for regulatory approvals that are processed within established performance standards.	90%

Program Activity Summary

This program involves regulating and supervising federally regulated financial institutions (FRFIs) to determine whether they are in sound financial condition and are complying with their governing statute law and supervisory requirements; monitoring the financial and economic environment to identify issues that may impact these institutions negatively; and intervening in a timely manner to protect depositors and policyholders from undue loss, while recognizing that management and boards of directors are ultimately responsible, and that financial institutions can fail.

Costs for this program are recovered through base assessments and user fees and charges paid by the federally regulated financial institutions covered under the *Bank Act*, *Trust and Loan Companies Act*, *Insurance Companies Act* and *Cooperative Credit Associations Act*. The Office of the Superintendent of Financial Institutions also receives revenues for cost-recovered services to provinces, for which it provides supervision of their institutions on a fee for service basis.

This program has three sub-activities:

1. Risk Assessment and Intervention: This program involves the administration and application of an effective supervisory process to assess the safety and soundness of regulated financial institutions by evaluating an institution's risk profile, financial condition, risk management processes, and compliance with applicable laws and regulations. This program includes activities to monitor and supervise financial institutions; monitor the financial and economic environment to identify emerging issues; and intervene on a timely basis when a financial institution's business practices may be imprudent or unsafe, by exercising supervisory powers to take, or require management or boards to take, necessary corrective measures as rapidly as possible to protect depositors and policy holders, while recognizing that all failures cannot be prevented.
2. Regulation and Guidance: This program involves advancing and administering a regulatory framework of rules and guidance that promotes the adoption by regulated financial institutions of sound risk management practices, policies and procedures designed to plan, direct and control the impact on the institution of risks arising from its operations. This program encompasses the issuance of regulations and guidance, input into federal legislation and regulations affecting financial institutions; contributions to accounting, auditing and actuarial standards; and involvement in a number of international regulatory activities.
3. Approvals and Precedents: Federally regulated financial institutions are required to seek regulatory approval for certain types of transactions. This program: evaluates and processes applications for regulatory consent; establishes positions on the interpretation and application of the federal financial institutions legislation, regulations and guidance;

identifies precedential transactions that may raise policy or precedent-setting issues and develops recommendations that recognize the need to allow institutions to compete effectively while undertaking reasonable risks that do not unduly impact the Office of the Superintendent of Financial Institution's primary stakeholders, the policyholders and depositors of FRFIs.

Planning Highlights

In addition to its core work, OSFI will focus on key strategies, including:

- Continue to participate in international committees such as the FSB, the BCBS, the IAIS, the Joint Forum, and the Senior Supervisors Group (SSG) to represent OSFI's views and contribute to developing final standards to ensure the ability to maintain OSFI's regime. These organizations are focused on identifying and responding to the key issues arising from global financial events, including future changes to regulatory approaches and new principles and rules for more effective prudential regulation. On the domestic front, continue to work closely with Financial Institutions Supervisory Committee (FISC).
- Improve our ability to identify, monitor and report on emerging risks including system-wide risks that may have a material impact on the Canadian financial system:
    - Enhance OSFI's use of stress testing to better assess risk and capital adequacy.
    - Perform selected comparative reviews of FRFIs in key risk areas, such as liquidity, retail credit and business models and strategy.
    - Maintain strong communications and continue to promote improved risk management practices in FRFIs with a focus on liquidity, capital management, and corporate governance.
- Ensure that capital adequacy rules are interpreted and implemented effectively within industry sectors.
- Enhance risk sensitivity of capital requirements in the insurance sector.
- Examine FRFI mortgage insurers and report to the Minister of Finance on certain matters related to the Government of Canada's mortgage insurance guarantee framework, as provided for under the new *Protection of Residential Mortgage or Hypothecary Insurance Act*.
- Continue to monitor changes to IFRS by assessing the impact on FRFIs and by addressing implications to OSFI's prudential regime, regulatory policies, and regulatory returns.
- Continue to work with a variety of stakeholders on various IFRS issues including Insurance Contracts Phase II to understand the future impact on OSFI's regime and on insurers.
- Be ready to participate in international peer reviews as they arise.

Program Activity: Regulation and Supervision of Federally Regulated Private Pension Plans

Human Resources (FTEs) and Planned Spending ($ millions)

2012-2013		2013-2014		2014-2015	
FTEs	**Planned Spending**	**FTEs**	**Planned Spending**	**FTEs**	**Planned Spending**
27	4.5	27	4.6	27	4.8

Program Activity Expected Results	Performance Indicators	Targets
Protect the financial interests of federally regulated private pension plan members and beneficiaries.	Percentage of estimated recoveries on pension plans that have terminated under-funded.	85%
Regulations, guidelines and other rules that are clear and balanced.	Percentage of knowledgeable observers[5] that rate OSFI's guidance as somewhat or very effective in providing an indication of OSFI's expectation. AND Percentage of knowledgeable observers[4] who rate OSFI as being good or very good at developing regulations, guidelines and other rules that strike an appropriate balance between interests of plan sponsors and plan members.	75% 50%
Regulatory approvals that are timely and transparent.	Percentage of knowledgeable observers[4] that understand somewhat or very well the basis upon which OSFI makes its decisions as part of the approval process. AND Percentage of completed applications for regulatory approvals that are processed within established benchmarks.	60% 90%

Program Activity Summary

This program involves regulating and supervising federally regulated private pension plans to determine whether they are meeting minimum plan funding requirements and are complying with their governing law and supervisory requirements. This program provides risk assessments of pension plans covering employees in federally regulated areas of employment; timely and effective intervention and feedback to protect the financial interests of plan members and beneficiaries from undue loss, while recognizing that plan administrators are ultimately responsible, and that plans can fail; a balanced relevant regulatory framework; and a prudentially effective and responsive approvals process. This program incorporates risk assessment and intervention, regulation and guidance, and approvals and precedents related to federally regulated private pension plans under the *Pension Benefits Standards Act*, 1985. The costs for this program are recovered from pension plan fees based on the number of members in each federally regulated pension plan.

[5] Plan Administrators and professionals who act on behalf of pension plans.

Planning Highlights

In order to achieve the expected results, OSFI plans to undertake, in addition to ongoing activities, the following initiatives:

- Continue to develop, test and implement the Risk Assessment System for Pensions (RASP) to support the Risk Assessment Framework for Federally Regulated Private Pension Plans published in 2009.
- Continue to update and enhance guidance for pension plans to support recent amendments to the *Pension Benefit Standards Act* and regulations.
- Adjust the monitoring of risks facing pension plans, including the impact of rule changes, and adjust supervisory and approval processes as warranted.

Strategic Outcome Two: A financially sound and sustainable Canadian public retirement income system.

Program Activity: Actuarial Valuation and Advisory Services

Human Resources (FTEs) and Planned Spending ($ millions)

2012-2013		2013-2014		2014-2015	
FTEs	**Planned Spending**	**FTEs**	**Planned Spending**	**FTEs**	**Planned Spending**
32	4.6	32	4.9	32	5.1

Program Activity Expected Results	Performance Indicators	Targets
Stewards of Canada's public retirement income system are provided with independent, accurate, high quality and timely professional actuarial services and advice.	Adequacy of professional experience of the Chief Actuary and staff. AND Compliance with Canadian and international professional standards.	Unanimous agreement amongst peers*
Accurate and high quality actuarial valuations inform Canada Pension Plan (CPP) and Old Age Security (OAS) stakeholders and Canadians of the current and projected financial status of the Plan and Program.	Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Percentage of the recommendations within the scope and influence of the OCA that are implemented before the next peer review.	Unanimous agreement amongst peers* 80%
Professional advice provided in CPP and OAS Triennial Actuarial Reports	Reports on Canada Pension Plan & Old Age Security are provided to the Minister on time for tabling in Parliament as per statutory deadlines.	100% by the deadline
Accurate and high quality actuarial valuations of Public Pension and Insurance Plans are provided to departments to inform design, funding and administration of the plans.	Peer review attests that actuarial valuations are comprehensive (i.e. examination of actuarial valuation methods, assumptions and analysis). AND Actuarial opinion is appropriate.	Unanimous agreement amongst peers*
Professional advice provided in Public Sector Triennial Actuarial Reports.	Reports on Public Pension Plans are provided to the Minister on time for tabling in Parliament as per statutory deadlines.	100% by the deadline
Accurate and high quality actuarial valuations inform CSLP stakeholders and Canadians of the future costs and provision rates of the program.	The Office of the Auditor General (OAG) performs an audit of the CSLP and uses work from OSFI's actuarial valuation of the CSLP as audit evidence to support the OAG's independent auditor report for the Public Accounts of Canada.	Confirmation from the OAG
Professional advice provided in Actuarial Report on the Canada Student Loans Program.	Reports on Canada Student Loans are provided to the Minister on time for tabling in Parliament as per statutory deadlines.	100% by the legislated deadline

* Independently selected panel of peers / actuaries.

Program Activity Summary

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs have made commitments to Canadians and have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. This program plays a vital and independent role in this process. It provides checks and balances on the future costs of the different pension plans under its responsibilities.

This program provides a range of actuarial services, under legislation, to the CPP and some federal government departments. It conducts statutory actuarial valuations of the CPP, Old Age Security (OAS) and Canada Student Loans programs, and pension and benefits plans covering the Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police (RCMP), federally appointed judges, and Members of Parliament.

The Office of the Chief Actuary (OCA) is funded by fees charged for its actuarial valuation and advisory services and by an annual parliamentary appropriation.

This program activity has three sub-activities:

1. Services to the CPP and OAS Program: This program involves the conduct of statutory actuarial valuations of the Canada Pension Plan (CPP) and Old Age Security (OAS) Program. These valuations estimate the financial status of these plans and programs as required by legislation. This program estimates long-term expenditures, revenues and current liabilities of the Canada Pension Plan and estimates long-term future expenditures for Old Age Security programs. Pursuant to the Canada Pension Plan and the *Public Pensions Reporting Act*, the Office of the Chief Actuary prepares statutory triennial actuarial reports on the financial status of these programs, as required by legislation.
2. Services to Public Sector Pension and Insurance Programs: This program involves the conduct of statutory actuarial valuations of various federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans as required by legislation. Pursuant to the *Public Pensions Reporting Act*, this program involves preparing statutory triennial actuarial reports on the financial status of federal public sector employee pension and insurance plans covering the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, the federally appointed judges and Members of Parliament. This program supports plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial reports and contributing to the overall accountability of the plan sponsor to members. This program also involves the provision of sound actuarial advice that assists different government departments in the design, funding and administration of these plans. As part of this program, the Chief Actuary submits the actuarial reports to the President of Treasury Board.
3. Services to the Canada Student Loans Program (CSLP): Pursuant to the *Student Financial Assistance Act*, as amended by the *Budget Implementation Act*, 2009, this program involves the conduct of statutory actuarial valuations of the Canada Student Loans Program (CSLP). The program also involves the preparation of a statutory

actuarial report of the CSLP by evaluating the portfolio of loans and the long-term costs of the program. As part of this program, the Chief Actuary submits the actuarial report to the minister of Human Resources and Skills Development.

Planning Highlights

In order to achieve the expected results the Actuarial Reports for the CSLP, Pension Plan for the Public Service of Canada, Pension Plan for the Royal Canadian Mounted Police and the Public Service Death Benefit Account will be sent to the appropriate Minister.

Program Activity: Internal Services

Human Resources (FTEs) and Planned Spending ($ millions)

2012-2013		2013-2014		2014-2015	
FTEs	**Planned Spending**	**FTEs**	**Planned Spending**	**FTEs**	**Planned Spending**
174	52.7	173	52.6	173	53.7

Program Activity Expected Results	Performance Indicators	Targets
OSFI's financial statements accurately reflect the financial position of OSFI.	An audit by the Office of the Auditor General attests that OSFI's financial statements present fairly, in all material respects, the financial position of OSFI at the year-end and the results of its operations and its cash flows for the year in accordance with IFRS.	N/A
OSFI maintains or improves its strong performance on its Results-based Management Accountability Framework, (MAF) as assessed by Treasury Board from time to time.	Treasury Board's next assessment of OSFI's MAF indicates equal or improved ratings, including in the two areas where, in the last assessment, Treasury Board suggested a need to focus.	N/A
Operational units within program support are efficient and effective, i.e. deliver services at reasonable cost and turn-around time relative to peers. AND Operational units are operating within applicable acts, policies and guidelines.	Treasury Board's audits of OSFI, in the scope of its government-wide Horizontal Audits, confirm no material findings for OSFI. AND Internal Audits of reviewed units find that controls are in place and units are operating within applicable acts, policies and guidelines, and/or identify areas for action.	N/A
A stable, committed and skilled workforce.	Knowledgeable observers[6] are of the view that OSFI staff knowledge is good or very good. AND Voluntary turnover reports are satisfactory. AND Employee Survey finds that OSFI employees are committed and the consolidated mean score of the Employee Survey remains acceptable.	N/A
Multi-year Information and Technology Renewal (ITR) Program remains dynamic and evolves to accommodate OSFI's changing strategic directions, priorities and resource constraints.	ITR Program is implemented as per established timelines and targeted results are achieved.	N/A

[6] Senior Executives, Plan Administrators, and professionals who act on behalf of federally regulated financial institutions and pension plans.

Program Activity Summary

OSFI's Internal Services program activity supports its two strategic outcomes. Activities include developing and implementing cost-effective, secure and reliable information management systems that contain relevant, accurate and timely internal and external data. These information systems are complemented by the development and delivery of effective financial, human resources and administration, security, communication and administrative policies, advice and guidance. The objective is to ensure that OSFI has the processes and systems in place to enable a motivated and skilled workforce to focus on its supervisory and regulatory activities.

Planning Highlights

Key planning highlights for OSFI's Internal Services include:

- A High-Performing and Effective Workforce:
  - Implement the HR Plan as committed and monitor and report internally on progress to plan and related risks.
  - Implement two key frameworks: Managing Compensation and Human Resources (HR) Management:
    - Implement a compensation framework that guides OSFI's approach to compensation and ensures we continue to recruit, retain and motivate our workforce.
    - Implement a framework for HR Management including governance of the HR function and management of HR programs/processes to ensure that effective "people management" remains an important element of management performance.

- An Enhanced Corporate Infrastructure:
  - Improve the sustainability of effective corporate services by implementing key process documentation and internal controls in a risk-management approach, including:
    - Implementing various internal audit action plans as committed (e.g. planned enhancements to OSFI's Enterprise Risk Management framework and processes) and reporting regularly to OSFI's Audit Committee on achievement of plans.
    - Ongoing development of an Enterprise-wide Internal Control Framework (EICF) as approved by the Executive Committee.
  - Continue to champion the Information Technology Renewal (ITR) program to achieve targeted milestones.
  - Develop an enterprise information and FRFI data management strategy and framework, as per sound Enterprise Information Management (EIM) principles, to ensure OSFI effectively captures and shares information.

Section III: Supplementary Information

Financial Highlights

The future-oriented financial highlights presented within this RPP are intended to serve as a general overview of OSFI's operations. These financial highlights are prepared on an accrual basis to strengthen accountability and improve transparency and financial management and to provide relevant, reliable, comparable and understandable information to the primary users of OSFI's financial statements. The primary users are the regulated financial institutions and private pension plans – that is, the paying stakeholders to whom OSFI is accountable – and their respective industry associations, who on the whole, operate financially on an accrual basis based on standards applicable to publicly accountable enterprises (PAEs) in the *CICA Handbook – Accounting*.

Future-oriented financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), can be found on OSFI's web site at: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=1548.

Future-oriented Condensed Statement of Financial Position

As at March 31, 2012 and 2013
($ millions)

	$ Change	Estimated Results 2011-2012	Forecast 2012-2013
Total Assets	2.0	60.5	62.5
Total Liabilities	2.0	35.5	37.5
Equity of Canada	0.0	25.0	25.0
Net Cost of Operations	2.0	60.5	62.5

Future-oriented Condensed Statement of Operations and Comprehensive Income

For the Years (Ending March 31)
($ millions)

	$ Change	Estimated Results 2011-2012	Forecast 2012-2013
Total Expenses	9.7	122.9	132.6
Total Revenues	9.7	122.9	132.6
Net Cost of Operations	0	0	0

OSFI matches its revenues to its costs. The difference between the figures above and the planned spending amounts provided in other sections of the RPP is due to a different basis of accounting and relate to such items as non-respendable revenues, amortization, severance pay liability adjustment and accrued interest costs. For more information, refer to the full future-oriented financial statements found on OSFI's Web site. In addition, the Forecast for 2012-2013, presented on a modified cash basis, includes an increase of $8.0 million, or a 6.3% increase over the planned spending for 2012-2013 provided in this report. The increase is largely related to additional resource requirements and OSFI's continued investments in information systems, as explained in the "Expenditure Profile" section of this report. This also accounts for the year-over-year increase of $9.7 million, or 7.9%, in revenues and expenses in 2012-2013 on an accrual basis.

List of Tables

All electronic supplementary information tables which accompany the 2012-2013 Report on Plans and Priorities can be found on the Treasury Board of Canada Secretariat's web site at: http://www.tbs-sct.gc.ca/rpp/2012-2013/info/info-eng.asp.

The following tables are available on the TBS web site:

- Greening Government Operations
- Internal Audits
- Sources of Respendable and Non-Respendable Revenue
- Summary of Capital Spending by Program Activity

Section IV: Other Items of Interest

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Other Information:

OSFI's Plan and Priorities 2012-2015 is available on OSFI's web site at:
http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?DetailID=1249